



Okhahlamba Local Municipality
(Registration number KZN 235)
Annual Financial Statements
for the year ended 30 June, 2020

Okhahlamba Local Municipality

(Registration number KZN 235)

Annual Financial Statements for the year ended 30 June, 2020

General Information

Legal form of entity	Local Municipality
Municipal demarcation code	KZN 235
Capacity	Low
Nature of business and principal activities	<p>Service Delivery: Rates,Waste Management and General services.</p> <p>Main business operations: Local government activities, planning and promotion of the integrated development plan, land, economic and environmental development.</p> <p>The mandate of the municipality is in terms of section 152 of the Constitution of South Africa.</p>
Accounting Officer	Mr SN Malinga Pr. Techni Eng (Civil)
Councillors	<p>Mayor - Cllr. MG Ndlangisa</p> <p>Deputy Mayor - Cllr. TG Ngozo</p> <p>Speaker - Cllr. SA Zulu</p> <p>Member of the Executive Committee - Cllr. TA Sigubudu</p> <p>Member of the Executive Committee - Cllr. KI Hadebe</p> <p>Member of the Executive Committee - Cllr. BM Dlamini</p> <p>Cllr. ENN Bhengu</p> <p>Cllr. MP Vilakazi</p> <p>Cllr. MJ Hadebe</p> <p>Cllr. MH Msimango</p> <p>Cllr. MH Hlatshwayo</p> <p>Cllr. SR Mlambo</p> <p>Cllr. KS Dladla</p> <p>Cllr. PP Sigubudu</p> <p>Cllr. MMS Vilakazi</p> <p>Cllr. K Simelane</p> <p>Cllr. PAM Mfuphi</p> <p>Cllr. RK Hlongwane</p> <p>Cllr. MI Dlamini</p> <p>Cllr. S Ndimande</p> <p>Cllr. TDJ Van Rensburg</p> <p>Cllr. IM Buthelezi</p> <p>Cllr. K Langa</p> <p>Cllr. SM Hlongwane</p> <p>Cllr. SM Buthelezi</p> <p>Cllr. JE Nqubuka</p> <p>Cllr. NA Mdakane</p> <p>Cllr. FE Buthelezi</p> <p>Cllr. SC Hadebe</p>

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Annual Financial Statements for the year ended 30 June, 2020

General Information

Registered office

259 Kingsway Road
Bergville
Tel: 036 448 8000
communications@okhahlamba.gov.za

Postal address

P. O. Box 71
Bergville
3350

Bankers

First National Bank, ABSA Bank, Investec Bank and Nedbank.

Auditors

Auditor General of South Africa

Preparer

The annual financial statements were internally compiled by:
Senior Accountant and reviewed by Chief Financial Officer, Internal
Audit and Risk Management and Communication.

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SARS	South African Revenue Services
GRAP	Generally Recognised Accounting Practice
IGRAP	Interpretation of Generally Recognised Accounting Practice
LGSETA	Local Government Sectorial Education and Training Authority
INEP	Integrated National Electrification Programme
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
WCF	Workman's Compensation Fund
COGTA	Co-operative Governance and Traditional Affairs
SETA WIL	Sectorial Education and Training Authority Work Integrated Learning
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund

Okhahlamba Local Municipality

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Annual Financial Statements for the year ended 30 June, 2020

Approval of Annual Financial Statements

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has reviewed the municipality's cash flow forecast for the year to 30 June, 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 73, which have been prepared on the going concern basis, were approved by the Accounting Officer on 30 October 2020 and were signed on its behalf by:

Mr SN Malinga Pr. Techni Eng (Civil)
ND Civil Eng., B Tech Civil Eng., B Tech in Mngt.,
Dipl. Project Mngt.

Date of Signature

30 October, 2020

Okhahlamba Local Municipality

(Registration number KZN 235)

Annual Financial Statements for the year ended 30 June, 2020

Statement of Financial Position as at 30 June, 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	7	491,170	435,722
Receivables from non-exchange transactions	8	983,491	3,084,238
Statutory receivables - VAT receivable	9	5,053,671	5,236,784
Consumer debtors	10	27,060,109	21,099,940
Cash and cash equivalents	12	57,730,330	26,657,949
		91,318,771	56,514,633
Non-Current Assets			
Property, plant and equipment	3	394,199,668	389,284,229
Intangible assets	4	1,118,137	734,600
Heritage assets	5	93,660	-
Receivables from exchange transactions	7	1,388,889	1,666,667
		396,800,354	391,685,496
Total Assets		488,119,125	448,200,129
Liabilities			
Current Liabilities			
Finance lease obligation	13	4,578,814	4,470,591
Payables from exchange transactions	16	33,624,328	34,167,820
Employee benefit obligation	6	113,000	160,000
Unspent conditional grants and receipts	14	29,876,526	11,132,548
Provisions	15	10,184,434	1,220,957
		78,377,102	51,151,916
Non-Current Liabilities			
Finance lease obligation	13	9,421,470	13,694,867
Employee benefit obligation	6	3,033,059	3,537,128
Provisions	15	-	6,363,000
		12,454,529	23,594,995
Total Liabilities		90,831,631	74,746,911
Net Assets		397,287,494	373,453,218
Accumulated surplus		397,287,494	373,453,218

* See Note 35

Okhahlamba Local Municipality

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Annual Financial Statements for the year ended 30 June, 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	2,818,776	2,612,356
Rendering of services		213,782	384,478
Rental of facilities and equipment		221,645	186,068
Interest on outstanding debtors		1,027,163	522,830
Agency services	22	3,046,693	3,646,893
Other income	21	114,627	208,959
Interest received	27	3,166,600	3,147,669
Total revenue from exchange transactions		10,609,286	10,709,253
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	17	29,949,756	29,440,767
Property rates - penalties imposed	17	5,810,914	4,185,992
Transfer revenue			
Government grants	19	160,654,435	154,381,073
Public contributions and donations	20	93,660	3,970,690
Fines, penalties and forfeits		561,250	664,420
Government subsidies		3,007,886	2,844,179
Total revenue from non-exchange transactions		200,077,901	195,487,121
Total revenue		210,687,187	206,196,374
Expenditure			
Employee related costs	24	(86,760,502)	(76,922,889)
Remuneration of councillors	25	(11,056,965)	(10,603,604)
Retirements benefits		(287,000)	(203,000)
Depreciation and amortisation	28	(24,661,860)	(20,330,736)
Finance costs	29	(1,529,200)	(2,018,488)
Lease rentals on operating lease		(1,566,089)	(1,566,089)
Debt Impairment	26	(9,129,105)	(8,562,109)
Landfill rehabilitation		-	(161,446)
General Expenses	23	(50,417,880)	(57,655,462)
Total expenditure		(185,408,601)	(178,023,823)
Operating surplus		25,278,586	28,172,551
Loss on disposal of assets and liabilities		(29,942)	(1,830,597)
Fair value adjustments		20,000	-
Actuarial gains/losses	6	1,192,000	(1,277,000)
Impairment loss/Reversal of impairments		(2,626,369)	(2,432,835)
		(1,444,311)	(5,540,432)
Surplus for the year		23,834,275	22,632,119

* See Note 35

Okhahlamba Local Municipality

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	349,425,601	349,425,601
Adjustments		
Prior year restatements (note 35)	1,395,498	1,395,498
Balance at 1 July, 2018 as restated*	350,821,099	350,821,099
Changes in net assets		
Surplus for the period	22,632,119	22,632,119
Total changes	22,632,119	22,632,119
Restated* Balance at 1 July, 2019	373,453,219	373,453,219
Changes in net assets		
Surplus for the year	23,834,275	23,834,275
Total changes	23,834,275	23,834,275
Balance at 30 June, 2020	397,287,494	397,287,494

* See Note 35

Okhahlamba Local Municipality

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Annual Financial Statements for the year ended 30 June, 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from ratepayers, and other		34,006,293	30,655,305
Grants		179,398,413	155,022,866
Interest income		3,166,600	3,147,669
		<u>216,571,306</u>	<u>188,825,840</u>
Payments			
Employee costs		(97,817,464)	(87,526,493)
Suppliers		(47,860,739)	(45,333,641)
Finance costs		(1,529,200)	(2,018,488)
		<u>(147,207,403)</u>	<u>(134,878,622)</u>
Net cash flows from operating activities	31	<u>69,363,903</u>	<u>53,947,218</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(32,514,150)	(50,659,238)
Proceeds from disposal of assets	3	731,643	334,686
Purchase of other intangible assets	4	(814,641)	(123,953)
Proceeds from sale of other intangible assets	4	-	2,407
Net cash flows from investing activities		<u>(32,597,148)</u>	<u>(50,446,098)</u>
Cash flows from financing activities			
Finance lease payments		(5,694,374)	(6,434,902)
Net cash flows from financing activities		<u>(5,694,374)</u>	<u>(6,434,902)</u>
Net increase/(decrease) in cash and cash equivalents		31,072,381	(2,933,782)
Cash and cash equivalents at the beginning of the year		26,657,949	29,591,731
Cash and cash equivalents at the end of the year	12	<u>57,730,330</u>	<u>26,657,949</u>

* See Note 35

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	2,722,536	-	2,722,536	2,818,776	96,240	a
Rendering of services	393,225	-	393,225	213,782	(179,443)	b
Rental of facilities and equipment	172,528	-	172,528	221,645	49,117	c
Interest received (trading)	-	-	-	1,027,163	1,027,163	
Agency Services	3,434,192	206,848	3,641,040	3,046,693	(594,347)	d
Other income	198,880	11,000	209,880	114,627	(95,253)	e
Interest received - investment	3,282,557	-	3,282,557	3,166,600	(115,957)	f
Total revenue from exchange transactions	10,203,918	217,848	10,421,766	10,609,286	187,520	

Revenue from non-exchange transactions

Taxation revenue

Property rates	32,011,961	(1,868,231)	30,143,730	29,949,756	(193,974)	g
Property rates - penalties imposed	5,478,010	(399)	5,477,611	5,810,914	333,303	h

Transfer revenue

Government grants & subsidies	158,189,000	11,773,364	169,962,364	160,654,435	(9,307,929)	i
Public contributions and donations	-	-	-	93,660	93,660	
Fines	631,200	220,399	851,599	561,250	(290,349)	j
Subsidies	2,796,000	12,585	2,808,585	3,007,886	199,301	k

Total revenue from non-exchange transactions	199,106,171	10,137,718	209,243,889	200,077,901	(9,165,988)	
Total revenue	209,310,089	10,355,566	219,665,655	210,687,187	(8,978,468)	

Expenditure

Employee related costs	(90,035,610)	3,274,702	(86,760,908)	(86,760,502)	406	
Remuneration of councillors	(10,678,257)	(378,712)	(11,056,969)	(11,056,965)	4	
Retirement benefits	-	(287,000)	(287,000)	(287,000)	-	
Depreciation and amortisation	(24,336,720)	-	(24,336,720)	(24,661,860)	(325,140)	l
Impairment loss/ Reversal of impairments	-	-	-	(2,626,369)	(2,626,369)	m
Finance costs	(1,690,534)	-	(1,690,534)	(1,529,200)	161,334	
Lease rentals on operating lease	(1,566,089)	-	(1,566,089)	(1,566,089)	-	
Debt Impairment	(5,818,350)	(3,459,737)	(9,278,087)	(9,129,105)	148,982	
General Expenses	(53,696,212)	3,001,535	(50,694,677)	(50,417,880)	276,797	
Total expenditure	(187,821,772)	2,150,788	(185,670,984)	(188,034,970)	(2,363,986)	

Operating surplus	21,488,317	12,506,354	33,994,671	22,652,217	(11,342,454)	
Loss on disposal of assets and liabilities	-	-	-	(29,942)	(29,942)	
Fair value adjustments	-	-	-	20,000	20,000	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actuarial gains/losses	-	-	-	1,192,000	1,192,000	
	-	-	-	1,182,058	1,182,058	
Surplus after gains/losses	21,488,317	12,506,354	33,994,671	23,834,275	(10,160,396)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	21,488,317	12,506,354	33,994,671	23,834,275	(10,160,396)	

Significant increase/decrease is explained below;

a) Service Charges: The municipal billing on refuse removal is more than what was anticipated at the time of preparing the adjustment budget, even though the budget was increased.

b) Rendering of Services: The municipality budgeted for staff parking , however the actual performance is low, this contributed to the under performance of this line item..

c) Rental of facilities: The municipality had anticipated less revenue, however there has been increase in the number of people using community halls.

d) Agency services: The municipality received less income due to COVID19 lockdown regulations.

e) Other income: The Municipality has under performance on tender fees, rates clearance certificates, business licenses, photocopying fees.

f) Interest received - investments: The municipality has anticipated more interest on investments than what the municipality actually received, however the interest received increase from 2018/19.

g) Property rates: There are properties that had change of categories, that led to less property rates levies.

h) Property rates penalties: The overperformance of this line item is due to increase in gross debtors balance.

i) Government grants and subsidies : The municipality during the budget preparation expected to fully spend the allocations, however the following allocations remain unspent at year end (note 14):

-Community Service Grant R 279 548, a rollover application was made to use the funds in 2019/2020 financial year,

-Smart centre grant amounting to R 8 912 064, rollover application has been made.,

-Disaster relief grant amounting to R 628 910,

-Building plans grant amounting to R 46 503, rollover application has been made..

j) Fines: all traffic fines that were issued during the lockdown were withdrawn by a court order, since there were no sitting for the cases.

(k) Subsidies: The Municipality received additional subsidy from LGSeta that was not budgeted for.

(l) Depreciation and amortisation: The Municipality revised the Residual Values of Motor Vehicles, this led to increase in the depreciation accordance to GRAP 3.

(m) Impairment loss: The Municipal building was damaged due to accident that resulted in impairment loss, there was an indication for impairment for landfill site since it has a zero useful life.

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						

Statement of Financial Position

Assets

Capital Budget	33,874,000	7,366,364	41,240,364	33,328,791	(7,911,573)	
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Okhahlamba Local Municipality

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Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary asset, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

1.3 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Major spare parts and stand by equipment which are expected to be used for more than one accounting period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life (Years)
Buildings	Straight line	30
Plant and machinery	Straight line	3 - 15
Motor vehicles	Straight line	7-10
Office equipment	Straight line	3 - 10
IT equipment	Straight line	3 - 10
Infrastructure	Straight line	
• Roads - Gravel	Straight line	3 - 10
• Roads - Tar	Straight line	10 - 15
• Paving	Straight line	5 - 30
Community	Straight line	
• Solid waste disposal	Straight line	5 - 25
• Community Assets	Straight line	5 - 30
leased Assets	Straight line	3 - 5

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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Annual Financial Statements for the year ended 30 June, 2020

Accounting Policies

1.3 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

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1.4 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.5 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

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1.5 Heritage assets (continued)

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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1.6 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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1.6 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions, where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

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1.6 Financial instruments (continued)

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument or based on any available observable market data.

The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

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1.6 Financial instruments (continued)

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

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Accounting Policies

1.6 Financial instruments (continued)

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

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1.7 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is 10 to 12%

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as an income and the contractual payments are recognised as an operating lease asset or liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

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1.8 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.8 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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1.9 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.10 Tax

Value AddedTax

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Section 15(2)(a) of the Value Added Tax Act No 89 of 1991.

1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

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1.11 Employee benefits (continued)

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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Accounting Policies

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Long service awards

The municipality offers long service award/bonus to an employee that has completed the following periods:

5 years service = 5 days

10 years service = 10 days

15 years service = 20 days

20-45 years service = 30 days

The employees may elect to either take or encash the days, the encashment or taking of the leave must take place in the same year that employee qualifies for the recognition/long service leave.

Based on previous experience, employees elect encashment of the days over taking leave days.

An employee that has 5 or more years service with the municipality and leaves the service of the municipality for any reason whatsoever, excluding reasons relating to misconduct, shall receive a pro rata long service bonus for any uncompleted period stipulated above.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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Accounting Policies

1.12 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgments. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

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Accounting Policies

1.12 Provisions and contingencies (continued)

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Landfill Rehabilitation Provision

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the provision is based on the expected future cost to rehabilitate of the various site discounted back to the statement of position at the cost of capital, which is currently 3.23% (2018: 3.63%).

The municipality has an obligation to rehabilitate these landfill sites. The cost of such property includes the initial estimate of the cost of rehabilitating the land and restoring the site on which it is located, the obligation which the municipality incurs as a consequence of having used the property during a particular year for landfill purposes. The municipality estimates the useful lives and makes assumption to the useful lives of these assets, which influences the provision for future costs.

The asset is measured using the cost model :

- a) subject to (b), changes in the liability are added to, deducted from, the cost of the related assets in the current period;
- b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- c) if the adjustment results in an addition to the cost of an asset, the economic entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. if it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
 - Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.
- Commitments are disclosed inclusive of VAT.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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Accounting Policies

1.14 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified timeframe unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest

Revenue arising from the use by others of entity assets yielding interest, or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

IGRAP 1

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.16 Rates and taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

1.17 Government grants and receipts

Unconditional Grants

Equitable share allocations are recognised in revenue as and when the allocation is received.

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1.17 Government grants and receipts (continued)

Conditional Grants

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of noncompliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

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Accounting Policies

1.19 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgments in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

- (a) expenditure incurred by the Municipality or Municipal entity in contravention of, or that is not in accordance with, requirement of this act, and which has not been condoned in terms of section 170.
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, requirement of the Municipal System Act, and which has not been condoned in terms of that Act.

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1.23 Irregular expenditure (continued)

- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office - Bearer's Act, 1998 (Act No. 20 of 1998)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. Irregular expenditure incurred is disclosed inclusive of VAT.

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019-07-01 to 2020-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

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Accounting Policies

1.26 Events after reporting date (continued)

- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.27 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Allowance for doubtful debts

The Municipality's management in exercising reasonable judgement in determining the provision for doubtful debt has considered GRAP 104, the assessment of the debtors and taking into account the risk factors presented by the debtors (type of debtor, amounts owing, payments history, economic indicators). Changes to the assumptions used are accounted for as a change in accounting estimates in terms of GRAP 3.

Review of useful lives of property, plant and equipment and intangible assets

The useful lives of assets are based on management's estimation. Management considers whether there is any indication that expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. These include changes in the composition, condition and nature of the asset, its susceptibility and adaptability to changes in technology and processes, the nature of the processes and environment in which the asset is deployed, availability of funding to replace the asset and changes in the market in relation to the asset, as well as planned repairs and maintenance including refurbishmentst.

1.28 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Okhahlamba Local Municipality

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Accounting Policies

1.28 Statutory receivables (continued)

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.29 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.30 Off setting

Assets and liabilities, revenue and expenses should not be offset; these items should be reported separately. Offsetting is permitted only if it is required or permitted by other standards of GRAP (GRAP 25), Legislation or where offsetting reflects the substance of the transaction or the event.

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July, 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 20: Accounting for Adjustments to Revenue	1 April, 2020	Impact is currently being assessed
• GRAP 1 (amended): Presentation of Financial Statements	1 April, 2020	Impact is currently being assessed
• GRAP 34: Separate Financial Statements	1 April, 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	1 April, 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	1 April, 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	1 April, 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	1 April, 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	1 April, 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	1 April, 2020	Impact is currently being assessed

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3. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	11,675,709	-	11,675,709	11,752,934	-	11,752,934
Buildings	218,745,008	(35,672,642)	183,072,366	210,261,788	(28,957,182)	181,304,606
Plant and machinery	8,029,050	(4,009,501)	4,019,549	7,853,577	(2,907,476)	4,946,101
Motor vehicles	44,553,940	(30,738,904)	13,815,036	46,001,519	(25,834,474)	20,167,045
Office equipment	5,285,520	(3,544,859)	1,740,661	5,308,946	(2,913,606)	2,395,340
IT equipment	3,892,384	(2,581,897)	1,310,487	4,157,127	(2,199,504)	1,957,623
Infrastructure	236,485,536	(58,733,826)	177,751,710	215,805,944	(49,920,081)	165,885,863
Community	9,273,505	(8,459,355)	814,150	6,850,915	(5,976,198)	874,717
Total	537,940,652	(143,740,984)	394,199,668	507,992,750	(118,708,521)	389,284,229

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment -2020

	Opening balance	Additions	Work in progress	Disposals	Fair Value adjustments	Depreciation	Impairment loss	Total
Land	11,752,934	-	-	(97,225)	20,000	-	-	11,675,709
Buildings	181,304,606	24,100	8,459,120	-	-	(6,511,682)	(203,778)	183,072,366
Plant and machinery	4,946,101	230,357	-	(17,852)	-	(1,139,057)	-	4,019,549
Motor vehicles	20,167,045	567,482	-	(617,146)	-	(6,302,345)	-	13,815,036
Office equipment	2,395,340	-	-	(2,759)	-	(651,920)	-	1,740,661
IT equipment	1,957,623	130,908	-	(26,603)	-	(751,441)	-	1,310,487
Infrastructure	165,885,863	-	20,679,593	-	-	(8,813,746)	-	177,751,710
Community	874,717	2,422,590	-	-	-	(60,567)	(2,422,590)	814,150
	389,284,229	3,375,437	29,138,713	(761,585)	20,000	(24,230,758)	(2,626,368)	394,199,668

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Work in progress	Disposals	Other movement	Donated assets	Depreciation	Impairment loss	Total
Land	11,777,868	-	-	(20,779)	(4,155)	-	-	-	11,752,934
Buildings	162,542,675	66,520	21,475,040	(719,346)	-	3,074,554	(5,134,837)	-	181,304,606
Plant and machinery	4,923,435	1,079,711	-	(17,026)	-	26,443	(1,066,462)	-	4,946,101
Motor vehicles	24,042,308	566,562	-	(123,810)	-	-	(4,318,015)	-	20,167,045
Office equipment	1,555,171	823,860	-	(27,972)	-	589,296	(545,015)	-	2,395,340
IT equipment	1,812,873	599,423	-	(29,050)	-	236,873	(662,496)	-	1,957,623
Infrastructure	151,670,225	105,120	23,510,167	(1,199,214)	4,155	-	(8,204,590)	-	165,885,863
Community	966,641	2,432,835	-	(28,086)	-	-	(63,838)	(2,432,835)	874,717
	359,291,196	5,674,031	44,985,207	(2,165,283)	-	3,927,166	(19,995,253)	(2,432,835)	389,284,229

Pledged as security assets

The following classes of assets (Cost) are pledged as security to a finance lease:

Motor Vehicles	18,098,092	18,634,641
ABSA finance lease		
IT Equipment	-	183,328
Vodacom Finance lease (fully settled in 2019/2020)		

Reconciliation of Work-in-Progress 2020

	Included within Buildings	Included within Infrastructure	Total
Opening balance	35,325,567	23,514,312	58,839,879
Additions/capital expenditure	8,459,120	20,679,592	29,138,712
Transferred to completed projects	(36,216,075)	(38,438,347)	(74,654,422)
	7,568,612	5,755,557	13,324,169

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3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Buildings	Included within Infrastructure	Total
Opening balance	60,586,641	7,927,231	68,513,872
Additions/capital expenditure	21,475,040	23,510,167	44,985,207
Disposals	(623,958)	-	(623,958)
Transferred to completed projects	(46,112,156)	(7,923,086)	(54,035,242)
	35,325,567	23,514,312	58,839,879

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Amount paid to employees	4,554,734	4,269,995
Amount paid to suppliers	3,517,443	2,869,857
Materials	939,170	3,678,410
Fuel and Oil	2,896,969	3,764,206
	11,908,316	14,582,468

Repairs and Maintenance on Property, Plant and Equipment is detailed as follows:

Amount paid suppliers R 3 517 443 (2019: 2 869 857), is included in general expenses (note 23) as sub-contracting services in the Statement of Financial Performance.

Employee related cost is the amount incurred on employees R 4 554 734 (2019: R 4 269 995), included in the employee related cost in the Statement of Financial Performance.

Materials amounting to R 939 170 (2019: 3 678 410) are included in the general expenses (note 23) as consumables in the Statement of Financial Performance. Included in materials is joint pipes, culverts and precast wall wings used in the maintenance of roads and infrastructure.

Fuel and oil amounting to R 2 896 969 (2019: 3 764 206) is included in general expenses (note 23) in the statement of Financial position.

Property Plant and Equipment that is being constructed/developed

There is no capital project that has been identified as taking a significant amount of time to complete in 2020, in relation to the estimated project timelines.

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4. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3,080,914	(1,962,777)	1,118,137	2,266,273	(1,531,673)	734,600

Reconciliation of intangible assets -2020

	Opening balance	Additions	Amortisation	Total
Computer software, other	734,600	814,641	(431,104)	1,118,137

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	948,539	123,953	(2,407)	(335,485)	734,600

5. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	93,660	-	93,660	-	-	-

Reconciliation of heritage assets 2020

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5. Heritage assets (continued)

Art Collections, antiquities and exhibits

Opening balance	Fair value donations	Total
-	93,660	93,660

Donations

The Municipality received a donation in a form of art collection from the KZN Department of Arts and Culture with the fair value of R 93 660 in 2020 (2019: 0). The fair value of was determined by a member of the International Fine Art and Antiques Appraiser Association Fellow (IFAAAAA Fellow).

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6. Employee benefit obligations

Defined benefit plan

Post retirement pension plan

The Municipality's personnel are members of one of the Natal Joint Municipal Pension (NJMPF) retirement funds, namely the Superannuation, Retirement and Provident Funds. As the aforementioned funds are multi- employer funds, the allocation of any surplus/ deficit to individual municipalities cannot be determined.

Furthermore, disclosure of further details such as actuarial assumptions cannot be attributed to any specific municipality and is of no relevance to the users of the municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans.

An independent valuer carries out statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The 2020 interim valuations have not been released.

Superannuation funds

The latest statutory valuation of the Superannuation Fund (defined benefit) as at 31 March 2017 concluded that:

The Fund's liabilities for service to the valuation date was 100% (2017: 100 %) funded on the discounted cash flow method

At the valuation date:

The fund is 100% funded on the "best estimate" funding basis as at the valuation date, and is also not fully funded on the "financial soundness" basis incorporating the full solvency reserve.

There was no deficit in respect of active members. A surcharge of 9.5% of pensionable salaries is payable.

Retirement Funds

The latest statutory valuation of the Retirement Fund (defined benefit) as at 31 March 2017 reflected:.

The memorandum account in respect of pensioners was 95.3% funded.

Based on the valuation assumption applied in 2016, the Fund was fully funded, however based on the revised assumptions the funds liabilities for the contributory members exceeded the value of the assets and the extension of the surcharge for another 5 years would be necessary to return the funding to 100%.

The statutory actuarial valuation carried out on the retirement fund as at 31 March 2017 reflected:

The fund is 100% (2016: 93.8%) funded as at the valuation date at the overall level. A number of members is steadily reducing, due to members electing to transfer to one of other Natal Joint Funds or external funds. A recommendation is the current surcharge of 21.65% of pensionable salaries continue to be paid in order to build up the Solvency Reserve to the full theoretical level.

Provident Fund

The latest statutory valuation of the Provident Fund was performed as at 31 March 2017.

Long Service Awards

The independent valuers carried out a statutory valuation on the Long Service Awards benefit as at 30 June 2020.

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6. Employee benefit obligations (continued)

The principal actuarial assumptions used were as follows:

The amounts recognised in the statement of financial position are as follows:

Long Service Awards

Opening balance	(3,697,128)	(2,288,990)
Past service cost	(30,000)	-
Interest cost	(287,000)	(203,000)
Expected employee benefit payment/current service cost	(491,000)	(259,000)
Actuarial gain/loss	1,192,000	(1,277,000)
Less municipality paid benefits	167,069	330,862
	(3,146,059)	(3,697,128)

Non-current liabilities	(3,033,059)	(3,537,128)
Current liabilities	(113,000)	(160,000)
	(3,146,059)	(3,697,128)

Active members	188	181
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Summary of key economic assumptions(p.a.)

Discount rate	8.90 %	7.80 %
Salary inflation	5.80 %	5.68 %
Net discount rate	2.93 %	2.01 %

Net expense recognised in the statement of financial performance

Past service cost	30,000	-
Interest cost	287,000	203,000
Expected employee benefit payment/current service cost	491,000	259,000
Actuarial gain/ loss	(1,192,000)	1,277,000
	(384,000)	1,739,000

7. Receivables from exchange transactions

Operating lease receivables (Fresh Produce)	-	14,240
Operating lease prepayment (Landfill site) - Current	277,778	277,778
Accrued interest	213,392	143,704
Operating lease prepayment (Landfill site) - Non-Current	1,388,889	1,666,667
	1,880,059	2,102,389

Non-current assets	1,388,889	1,666,667
Current assets	491,170	435,722
	1,880,059	2,102,389

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8. Receivables from non-exchange transactions

Fines	884,634	714,730
Government grants and subsidies	-	2,216,301
Sundry Debtors	96,237	153,207
Staff Debtors	2,620	-
	983,491	3,084,238

Statutory receivables included in receivables from non-exchange transactions above are as follows:

Fines	884,634	714,730
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Other non-financial asset receivables included in receivables from non-exchange transactions above are as follows:

Other non-financial asset receivable	98,857	153,207
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Financial asset receivables included in receivables from non-exchange transactions above	-	2,216,301
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Total receivables from non-exchange transactions	983,491	3,084,238
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Statutory receivables general information

Transaction(s) arising from statute

Traffic fines are issued in terms of the Administrative Adjudication of Road Traffic Offences (AARTO Act) by way of notices to offenders which specify the value of the fine that must be paid.

Determination of transaction amount

Schedule 3 of the AARTO Regulations 2008 for charge codes and descriptions, penalties and their discounts, and demerit points.

Statutory receivables impaired

As of 30 June, 2020, traffic fines of R 2 030 992 (2019: R 1 812 947) were impaired and provided for.

The amount of the provision is R 1 146 359 as at 30 June, 2020 (2019: R 1 098 216).

The net balance is R 884 634 as at 30 June 2020 (2019: 714 730).

Factors the entity considered in assessing statutory receivables impaired

The Municipality accounts for traffic fines impairment in accordance with IGRAP1.

The Municipality assess the average collection rate of the traffic fines over 7 years.

Reconciliation of provision for impairment for statutory receivables

Opening balance	(1,098,216)	(746,478)
Provision for impairment	(48,142)	(351,738)
	(1,146,358)	(1,098,216)

9. Statutory receivables - VAT receivable

VAT	5,053,671	5,236,784
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2019/20 VAT 201's were submitted to SARS up until 30 June 2020. The accounting treatment for VAT is on cash basis.

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9. Statutory receivables - VAT receivable (continued)		
Transaction(s) arising from statute		
VAT is levied in terms of Value-Added Tax Act 89 of 1991.		
Determination of transaction amount		
15% of the Vatable/Taxable supply.		
Statutory receivables impaired		
The carrying amount of the receivable amount disclosed is not impaired.		
10. Consumer debtors		
Gross balances		
Rates	38,745,824	32,203,158
Refuse	6,911,148	4,460,521
Other debtors	22,708,592	16,828,911
	68,365,564	53,492,590
Less: Allowance for impairment		
Rates	(23,408,773)	(19,500,391)
Refuse	(4,175,457)	(2,701,036)
Other	(13,721,225)	(10,191,223)
	(41,305,455)	(32,392,650)
Net balance		
Rates	15,337,051	12,702,767
Refuse	2,735,691	1,759,485
Other	8,987,367	6,637,688
	27,060,109	21,099,940
Statutory receivables included in consumer debtors above are as follows:		
Property rates	15,337,051	12,702,767
Financial asset receivables included in consumer debtors above	11,723,058	8,397,173
Total consumer debtors	27,060,109	21,099,940
Included in above is receivables from exchange transactions (Gross balance)		
Refuse	6,911,148	4,460,521
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Property rates	38,745,824	32,203,158
Other Debtors	22,711,150	16,829,896
	61,456,974	49,033,054
Gross balance	68,368,122	53,493,575
Property rates	15,337,051	12,702,767

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Figures in Rand	2020	2019
10. Consumer debtors (continued)		
Refuse removal	2,735,691	1,759,485
Other debtors	8,987,367	6,637,688
Reconciliation of allowance for impairment		
Balance at beginning of the year	(32,392,650)	(24,427,693)
Contributions to allowance	(9,080,963)	(8,210,370)
Debt impairment written off against allowance	168,158	245,413
	(41,305,455)	(32,392,650)

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10. Consumer debtors (continued)

Statutory receivables general information

Transaction(s) arising from statute

Property rates are charged in terms of Municipal Property Rates Act.

Determination of transaction amount

Property rates are determined by applying cents in the Rand on the market valuation as per the Council approved tariff policy (see note 17):

Interest or other charges levied/charged

Interest at a fixed rate of 18% per annum (2019: 18 %) is levied on the rates outstanding one month after due date

Basis used to assess and test whether a statutory receivable is impaired

Accounts with 0-90 days balance are not impaired as there is less doubt in the recoverability of the monies. This does not include unregistered land where the total debt is provided at 100%.

Significant debtors are identified and are tested for impairment individually.

Insignificant debtors are grouped as per their category (i.e. Commercial, Residential etc.) and tested for impairment as a group.

Reconciliation of provision for impairment

Relating specifically to Statutory Receivables

Opening balance	(19,500,391)	(15,558,773)
Provision for impairment	(3,908,382)	(3,941,618)
	(23,408,773)	(19,500,391)

Receivables past due but not impaired

Relating specifically to Statutory Receivables

Statutory receivables which are less than 3 months past due are not considered to be impaired. At 30 June, 2020, R 2 301 848 (2019: R 1 533 302) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

Amount not past due or impaired	1,947,963	1,988,692
Amount past due but not impaired	2,301,848	1,533,302
Amount past due and impaired	33,002,241	27,361,024

Factors the entity considered in assessing statutory receivables past due but not impaired

Ageing of the debt, the collection of the long outstanding debtors is always in doubt.

The category of the debt (e.g. Business and commercial, residential)

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10. Consumer debtors (continued)		
Consumer debtors impairment analysis		
Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June, 2020, 3 703 394 (2019: R 3 087 131) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
Amount not past due or impaired	3,004,670	2,673,856
Amount past due but not impaired	3,703,394	3,087,131
Amount past due and impaired	61,660,094	47,732,615
Consumer debtors impaired		
As of 30 June, 2020, consumer debtors of R 61 660 094 (2019: 47 732 615) were impaired and provided for.		
The amount of the provision was R 41 305 455 as of 30 June, 2020 (2019: R 32 392 650).		
11. Consumer debtors disclosure		
Gross balances		
Organ of the State	17,218,213	12,302,944
Commercial	7,426,274	4,940,309
Households	17,570,219	12,451,084
Other	26,153,453	23,799,264
	68,368,159	53,493,601
Less: Allowance for impairment		
Organ of the State	(4,011,547)	(2,887,072)
Commercial	(1,438,588)	(1,015,224)
Households	(13,417,576)	(9,391,126)
Other	(22,437,744)	(19,099,229)
	(41,305,455)	(32,392,651)
Net balance		
Organ of the State	13,206,666	9,415,872
Commercial	5,987,686	3,925,085
Households	4,152,643	3,059,958
Other	3,715,709	4,700,035
	27,062,704	21,100,950
Organ of State		
Current (0 -30 days)	366,388	348,993
31 - 60 days	376,331	343,128
61 - 90 days	369,603	318,166
91 - 120 days	369,888	323,648
121 - 150 days	360,401	294,825
> 150 days	14,908,232	10,674,185
	16,750,843	12,302,945

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11. Consumer debtors disclosure (continued)		
Commercial		
Current (0 -30 days)	546,324	698,671
31 - 60 days	438,193	341,161
61 - 90 days	380,440	(114,140)
91 - 120 days	335,336	211,683
121 - 150 days	255,211	187,754
> 150 days	5,128,838	3,615,180
	7,084,342	4,940,309
Household		
Current (0 -30 days)	799,915	724,095
31 - 60 days	613,510	468,682
61 - 90 days	557,055	427,665
91 - 120 days	486,357	409,670
121 - 150 days	486,287	387,195
> 150 days	14,387,503	10,033,776
	17,330,627	12,451,083
Other		
Current (0 -30 days)	1,123,365	953,119
31 - 60 days	652,734	574,579
61 - 90 days	590,985	562,874
91 - 120 days	502,669	526,829
121 - 150 days	534,263	452,636
> 150 days	22,209,344	19,283,743
Credit balances	1,588,905	1,445,484
	27,202,265	23,799,264

Included in Other is Agricultural, Industrial, Tourism, Privately Developed Estates properties, unregistered land.

Credit balances R 1 588 905 (2019: R 1 445 484) have been added to the gross debtors and have been included in payables from exchange transactions note 16.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6,200	6,195
Bank balances	27,725,656	2,590,344
Short-term deposits	29,998,474	24,061,410
	57,730,330	26,657,949

Included in the balance of Bank and Cash is the amount of unspent funds received for the RDP houses on behalf of beneficiaries. The amount is R 3 734 767 (2019: R 798 717). The corresponding liability has been appropriately disclosed as part of unspent government grants. Refer to note 14.

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12. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June, 2020	30 June, 2019	30 June, 2020	30 June, 2019
Nedbank03/7881154969/000001 : Fixed Deposits	5,199,295	-	5,199,295	-
First National Bank: 51660362710 Cheque Account	27,725,656	2,590,344	27,725,656	2,590,344
First National Bank: 62752942063: Cheque Account	621,522	1,482,710	621,522	1,482,710
First National Bank: 74484485427 Fixed Deposit	4,547,419	4,256,129	4,547,419	4,256,129
Absa Bank: 2074514859: Fixed Deposit	15,211,391	14,148,723	15,211,391	14,148,723
Investec : 1100463208500	4,418,848	4,173,848	4,418,848	4,173,848
Total	57,724,131	26,651,754	57,724,131	26,651,754

13. Finance lease obligation

Minimum lease payments due

- within one year	5,265,549	5,399,603
- in second to fifth year inclusive	10,675,638	16,279,997

less: future finance charges

15,941,187	21,679,600
(1,940,903)	(3,514,142)

Present value of minimum lease payments

14,000,284	18,165,458
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Present value of minimum lease payments due

- within one year	4,578,817	4,470,591
- in second to fifth year inclusive	9,421,467	13,694,867
	14,000,284	18,165,458

Non-current liabilities

9,421,470

Current liabilities

4,578,814

14,000,284 **18,165,458**

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 10.25% (2019: 10.25%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note (3).

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14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Human Settlements Housing Grant	3,734,766	798,717
Fresh Produce Market Grant	81,474	81,474
Housing Projects Grant	9,900,153	9,900,153
Extravaganza Grant	6,500,000	-
Disaster Relief Grant	628,910	-
Smart Centre Grant	8,912,064	-
Local Government Sectorial Education and Training Authority Grant	8,215	8,215
Small Town Rehabilitation Grant	64,441	64,441
Community Service Centre Grant	-	279,548
Building Plans System Grant	46,503	-
	29,876,526	11,132,548

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

See note (19) for reconciliation of grants from National/Provincial Government.

Covid19 lockdown had an impact in the Municipality's ability to fully spent the grant allocations.

15. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Payments	Increase in future value	Total
Environmental rehabilitation	7,041,833	-	-	2,422,590	9,464,423
Performance Bonuses	542,124	720,011	(542,124)	-	720,011
	7,583,957	720,011	(542,124)	2,422,590	10,184,434

Reconciliation of provisions - 2019

	Opening Balance	Additions	Interest cost	Payments	Increase in Future value	Total
Environmental rehabilitation	4,447,552	-	161,446	-	2,432,835	7,041,833
Performance bonuses	648,619	577,873	-	(684,368)	-	542,124
	5,096,171	577,873	161,446	(684,368)	2,432,835	7,583,957

Non-current liabilities	-	6,363,000
Current liabilities	10,184,434	1,220,957
	10,184,434	7,583,957

The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate the landfill site used for waste disposal.

Balance of the provision for landfill site rehabilitation R 9 464 423 (2019: R 7 041 833).

Increase in the landfill site rehabilitation provision is R2 422 590 (2019: 2 432 835)

The Municipality expects to rehabilitate the landfill site in the 2020/21 financial year.

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16. Payables from exchange transactions		
Trade payables	7,161,371	8,758,999
Payments received in advanced	1,588,905	1,445,484
Retention	10,774,659	13,237,737
Leave pay accrual	7,394,308	5,223,049
Unallocated Receipts	1,651,320	224,384
Sundry Payables	2,904,347	3,323,421
13th Cheque Accrual	2,149,418	1,954,746
	33,624,328	34,167,820

Included in the sundry payable is an amount of R 2 873 997 (2019: R 3 313 221) that arise due to the introduction of GRAP 109, these amounts relates to VAT input claimed before the GRAP standard was effective.

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17. Property rates		
Rates received		
Residential	9,216,654	8,678,605
Commercial	3,247,471	3,104,151
State	5,630,589	6,533,749
Municipal	734,499	746,139
Small holdings and farms	7,949,974	7,518,847
Communal Land	5,397,142	5,591,291
Other properties	19,106,556	14,751,765
Less: Income forgone	(21,333,129)	(17,483,780)
	<u>29,949,756</u>	<u>29,440,767</u>
Property rates - penalties imposed	5,810,914	4,185,992
	<u>35,760,670</u>	<u>33,626,759</u>

Valuations

Residential	1,007,720,000	996,060,000
Commercial	353,370,000	353,370,000
State	689,380,000	747,570,000
Municipal	80,850,000	81,610,000
Small holdings and farms	3,495,168,000	3,448,078,000
Communal Land	648,436,000	639,736,000
Other	1,683,183,401	1,711,463,401
	<u>7,958,107,401</u>	<u>7,977,887,401</u>

Valuations on properties are performed every 5 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Interim valuations have been received for the 2019/20 financial year.

Assessments rates are determined by applying the following cents in the Rand on the market valuation:

Agriculture properties used for agriculture purposes	0.00230	0.00218
Business and commercial properties	0.00919	0.00874
Industrial properties	0.00919	0.00874
Municipal properties, land reform, informal settlements, public worship	0.00919	0.00874
Public service infrastructure and public benefit organisation	0.00919	0.00218
Residential purpose and State	0.00919	0.00874
Communal land, Privately developed, Tourism and Hospitality	0.00919	0.00874
Municipal properties binded by lease agreements	0.00919	0.00874

Rebates granted to:

Agriculture and agricultural small holdings	20 %	20 %
Place of Worship, Communal Land and Municipal properties	100 %	100 %
Privately developed estates	20 %	20 %
Public service infrastructure	100 %	100 %
Residential small holdings and rural residential	20 %	20 %
Tourism and hospitality	20 %	20 %

A rebate is granted in terms of the Municipal Property Rates Act on the first R15 000 of the market value of all residential properties. Public Service Infrastructure are permitted a 100% impermissible exemption.

An additional rebate is allowed on the next R85 000 of all properties within a residential category. A 20% rebate is allowed for other properties based on the category of the property.

Pensioners receive a 50% rebate on application. 100% indigent rebates are offered to qualifying applicants with total household income not exceeding R 4 120 per month. A 5% discount is applicable to rates settled on calculation, application and paid in advance for a specific financial year.

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17. Property rates (continued)

Rates are levied on an annual basis over 12 monthly installments with the final date for payment being 31 July 2020.

Interest at a fixed rate of 18% per annum (2019: 18 %) is levied on the rates outstanding one month after due date.

18. Service charges

Refuse removal	2,818,776	2,612,356
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19. Government grants

Operating grants

Equitable Share	124,946,000	110,874,000
Financial Management Grant (FMG)	1,900,000	1,900,000
Municipal Disaster Relief Grant	658,090	-
Expanded Public Works Programme (EPWP)	2,539,000	2,432,000
Local Government Sectorial Education and Training Authority (LG SETA)	-	46,400
	130,043,090	115,252,400

Capital grants

Municipal Infrastructure Grant (MIG)	28,304,000	32,295,000
Small Town Rehabilitation Grant	-	1,935,559
Smart Centres Grant	1,087,936	-
Market Stall Grant	486,364	4,513,636
Fresh Produce Market Grant	-	164,026
Bergville Community Service Centre Grant	279,548	220,452
Building Plans System Grant	453,497	-
	30,611,345	39,128,673
	160,654,435	154,381,073

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Equitable Share

Current-year receipts	124,946,000	110,874,000
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In terms of the Constitution of South Africa, this grant is used to subsidise provision for basic services and for the municipality's operations.

Finance Management Grant (FMG)

Current-year receipts	1,900,000	1,900,000
Conditions met - transferred to revenue	(1,900,000)	(1,900,000)
	-	-

This grant was used for implementation of MSCOA, physical verification of assets, Municipal Finance Management Programme and payments of finance interns. No funds were withheld.

Municipal Disaster Management Grant

Current-year receipts	1,287,000	-
Conditions met - transferred to revenue	(658,090)	-
Balance unspent	628,910	-

Conditions still to be met - remain liabilities (see note 14).

This grant was used for the COVID19, for cleaning material and personal, protective clothing. No funds were withheld.

Municipal Infrastructure Grant (MIG)

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Figures in Rand	2020	2019
19. Government grants (continued)		
Current-year receipts	28,304,000	32,295,000
Conditions met - transferred to revenue	(28,304,000)	(32,295,000)
	-	-
The grant is for the implementation of projects approved by MIG. No funds were withheld.		
Extravaganza		
Current-year receipts	6,500,000	-
Conditions still to be met - remain liabilities (see note 14).		
This grant is for the organisation of Extravaganza festivities. No funds were withheld.		
Building Plans System		
Balance unspent at beginning of year	-	-
Current-year receipts	500,000	-
Conditions met - transferred to revenue	(453,497)	-
	46,503	-
Conditions still to be met - remain liabilities (see note 14).		
This grant is for acquisition of building plans information management system.. No funds were withheld.		
Cogta- Fresh Produce Market		
Balance unspent at beginning of year	81,474	245,500
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(164,026)
	81,474	81,474
Conditions still to be met - remain liabilities (see note 14).		
This grant is for operations of the Fresh Produce Market. No funds were withheld.		
Small Town Rehabilitation Grant		
Balance unspent at beginning of year	64,441	-
Current-year receipts	-	2,000,000
Conditions met - transferred to revenue	-	(1,935,559)
	64,441	64,441
Conditions still to be met - remain liabilities (see note 13)		
This grant is for the rehabilitation of Caravan park. No funds were withheld.		
Market Stalls Grant		
Balance unspent at beginning of year	(2,216,301)	-
Current-year receipts	2,702,665	2,297,335
Conditions met - transferred to revenue	(486,364)	(4,513,636)

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19. Government grants (continued)

- (2,216,301)

The Municipality pays for the project from its coffers, then submit claims and proof of payments to the Department of Small Business Development, the department then makes a transfer to the Municipality. The total funding is R 5 000 000.

This grant is for the construction on market stalls. No funds were withheld.

Department of Human Settlements grant

Balance unspent at beginning of year	798,718	290,487
Current-year receipts	51,202,901	24,469,685
Other	(48,266,852)	(23,961,454)
	3,734,767	798,718

Conditions still to be met - remain liabilities (see note 14).

The Municipality is an agent. this grant is for housing projects, the value of the invoice for the work done by the contractor is transferred to the municipality by the Department of Human Settlement, after the contractor has submitted the claims or invoices to the department. No funds were withheld.

Integrated National Electrification Programme (INEP)

Current-year receipts	10,000,000	7,984,000
Amount spent	(10,000,000)	(7,984,000)
	-	-

The municipality has entered into an arrangement with ESKOM for construction of MV powerlines for the areas within area of the municipality. The municipality is an agent to the transaction as all the powerlines are handed over back to ESKOM upon completion. Eskom would determine the specifications and approve the designs before construction. The project would be inspected by Eskom upon completion before it can be handed over. The Municipality has responsibility to appoint the contractor and/or service provider that is registered with ESKOM. The arrangement would improve the lives of the local communities.

No funds were withheld.

Housing Projects

Balance unspent at beginning of year	9,900,153	9,900,153
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Conditions still to be met - remain liabilities (see note 14).

There are ongoing engagements between the municipality and the Department of Human Settlement in relation to the existence of this liability.

Expanded Public Works Programme (EPWP)

Balance unspent at beginning of year	-	-
Current-year receipts	2,539,000	2,432,000
Conditions met - transferred to revenue	(2,539,000)	(2,432,000)
	-	-

This grant is for the salaries and operational costs of the contract employees for Extended Public Works Programme.

Local Government Sectorial Education and Training Authority Grant (LG SETA)

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Figures in Rand	2020	2019
19. Government grants (continued)		
Balance unspent at beginning of year	8,215	54,615
Conditions met - transferred to revenue	-	(46,400)
	8,215	8,215

Conditions still to be met - remain liabilities (see note 14).

This grant is provided for the Work Integrated Learning Programme in implementing the National Skills Development Strategy for the provision of experiential training to further education and training of graduates. No funds were withheld.

Community Service Centre Grant

Balance unspent at beginning of year	279,548	-
Current-year receipts	-	500,000
Conditions met - transferred to revenue	(279,548)	(220,452)
	-	279,548

The grant is for the construction and the operational expenditure for the Community Service Centre. No funds were withheld.

Smart Centres Grant

Current-year receipts	10,000,000	-
Conditions met - transferred to revenue	(1,087,936)	-
	8,912,064	-

Conditions still to be met - remain liabilities (see note 14).

This grant is for the construction of the Sports Complex grand stands. No funds were withheld.

20. Public contributions and donations

Public contributions and donations	93,660	3,970,690
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The Municipality received a donation in a form of art collection from the KZN Department of Arts and Culture with the fair value of R 93 660 in 2020 (2019: 0).

21. Other income

Business Licenses	6,174	6,996
Fees for photocopies and subscriptions	19,328	50,182
Rates Clearance	34,696	41,522
Tenders	40,479	86,218
Valuation Roll	1,130	957
Taxi Rank Fees	12,820	22,933
Sundry Revenue	-	151
	114,627	208,959

22. Agency services

Driver's Licenses	2,167,630	2,761,800
Vehicle Registration	879,063	885,093
	3,046,693	3,646,893

The municipality receives 8.55% on amounts collected for vehicle registrations since this is the function of Department of Transport

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Figures in Rand	2020	2019
23. General expenses		
Audit committee fees	228,651	221,735
Advertising	508,516	300,390
Auditors remuneration	2,619,669	1,929,054
Bank Charges	41,725	40,688
Communications and public relations	146,960	128,655
Consulting and professional Services	1,375,800	3,854,776
Consumables	2,264,296	4,951,739
Disaster and emergencies	896,873	32,300
Education support	931,979	1,350,852
Electrification projects	-	8,474
Sub-contracting services	3,542,443	3,008,352
Refreshments	380,908	462,324
Insurance	916,008	733,615
Conferences and seminars	81,595	177,725
IT expenses	2,514,972	1,847,383
Marketing	-	186,835
Pauper burials	216,000	176,900
Medical expenses	31,469	131,202
Rental of offices and office machines	893,392	647,342
Fuel and oil	4,769,469	5,858,544
Postage and courier	75,709	53,896
Printing and stationery	631,053	1,106,492
License fees	1,250,080	694,970
Strategic planning	148,928	381,674
Security (guarding of municipal properties)	3,901,250	3,211,216
Sport promotions	275,450	1,693,949
Subscriptions and membership fees	947,444	1,007,559
Telephone and fax	3,368,251	6,275,961
Training	823,047	799,722
Subsistence and travelling reimbursement	1,124,321	1,387,728
Traffic signs and roadmarkings	142,519	27,800
Electricity	2,562,341	1,569,355
Water	190,033	304,330
Uniform	558,674	720,232
Tourism Development	593,368	528,733
SMME's support	6,417,525	6,651,963
Free basic electricity	1,128,023	946,780
Ward committee	1,711,500	1,649,000
Public participation	2,049,599	2,439,431
Valuation expense	76,330	65,426
Scholar patrol	81,710	90,360
	50,417,880	57,655,462

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24. Employee related costs

Basic	59,375,539	54,042,589
Bonus	5,084,459	4,343,022
Medical aid - company contributions	1,951,178	1,297,871
UIF	478,304	447,237
WCF	811,571	558,356
SDL	549,825	620,905
Leave pay provision charge	2,900,269	2,018,670
Overtime payments	2,935,054	2,058,775
Long-service awards	521,000	259,000
Car allowance	2,642,780	2,629,307
Housing benefits and allowances	220,079	308,952
SALGA	23,822	21,831
Post employee benefits- Pension	9,266,622	8,316,374
	86,760,502	76,922,889

Remuneration of Municipal Manager

Annual Remuneration	904,681	634,306
Car Allowance	192,000	126,000
Performance Bonuses	143,891	153,392
	1,240,572	913,698

Remuneration of Chief Finance Officer

Annual Remuneration	451,143	797,180
Car Allowance	90,000	216,000
Performance Bonus	132,744	132,744
	673,887	1,145,924

Remuneration of Director Social Services

Annual Remuneration	715,361	672,535
Car Allowance	168,000	168,000
Performance Bonuses	132,744	132,744
Housing Allowances	120,000	120,000
	1,136,105	1,093,279

Remuneration of Director Technical Services

Annual Remuneration	98,991	329,235
Car Allowance	25,368	96,000
Housing Allowances	-	71,428
Performance Bonuses	-	132,744
	124,359	629,407

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Figures in Rand	2020	2019
24. Employee related costs (continued)		
Remuneration of Director Corporate Services		
Annual Remuneration	830,030	770,420
Car Allowance	216,000	189,400
Performance Bonuses	132,744	132,744
	1,178,774	1,092,564
25. Remuneration of councillors		
Councillors	10,949,491	10,500,452
SDL and UIF	107,474	103,152
	11,056,965	10,603,604
Mayor		
Annual remuneration	860,859	827,749
Subsistence and travel reimbursements	12,860	7,719
Cellphone allowance	44,400	44,400
SDL	9,135	8,771
	927,254	888,639
Deputy Mayor		
Annual remuneration	688,688	662,200
Cellphone allowance	44,400	44,400
SDL	7,331	7,066
	740,419	713,666
Speaker		
Annual remuneration	688,688	662,200
Cellphone allowance	44,400	44,400
SDL	7,331	7,066
	740,419	713,666
Exco		
Annual remuneration	945,158	940,514
Travel allowance	135,421	98,503
Cellphone allowance	133,200	133,200
Subsistence and travel reimbursements	7,655	15,614
SDL	11,892	11,560
	1,233,326	1,199,391
Councillors		
Annual remuneration	6,148,267	5,888,696
Travel allowance	194,810	143,360
Cellphone allowance	1,021,200	1,010,830
Subsistence and travel reimbursements	8,675	20,156
SDL	71,786	68,688
	7,444,738	7,131,730

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25. Remuneration of councillors (continued)

In-kind benefits

The Mayor, Deputy Mayor, and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has 2 full-time bodyguards and the use of a Council owned vehicle.

The Deputy Mayor has 2 full-time bodyguards and the use of a Council owned vehicle.

The Speaker has 2 full-time bodyguards and the use of a Council owned vehicle.

Accounting Officer's certification of Councillors remuneration

The Accounting Officer certifies that the salaries, allowances and benefits of Councillors as disclosed above are within the upper limits of the framework envisaged in Section 219 of the Constitution read with the Remuneration of Public Office

Bearer's Act.

Subsistence and travelling reimbursement

The councillors' subsistence and travelling reimbursement R 29 191 (2019: R 43 489) is included under general expenses in the statement of Financial Performance.

26. Debt impairment

Debt impairment - Consumer debtors	9,080,963	8,210,371
Debt impairment-Traffic fines	48,142	351,738
	9,129,105	8,562,109

Debt impairment for consumer debtors is R 9 080 963 (2019:R 8 210 371). Increase in provision from (2019:R 32 392 650 - R 168 158) to (2020: R41 305 455). An amount of R 168 158 (2019:R 245 413) was written off against the debt impairment.

Debt impairment for traffic fines is R 48 142, the provision increased from June 2019: R 1 098 217 to 30 June 2020: 1 146 359.

27. Interest received

Interest revenue

Interest received - Current Account	1,236,709	1,218,608
Interest received - Investments	1,929,891	1,929,061
	3,166,600	3,147,669

28. Depreciation and amortisation

Property, plant and equipment	24,230,756	19,995,253
Intangible assets	431,104	335,485
	24,661,860	20,330,738

Refer to reconciliation in note 3 and 4 for further details. Depreciation and amortisation is calculated over the useful life of the asset and reflects the realisation of that asset through continued use.

29. Finance costs

Finance leases	1,529,200	2,018,488
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30. Operating lease

The Municipality entered into an operating lease agreement as from 29 June 2020 for a period of 3 years with Yuretek, leasing photocopier machines and a monthly rental expense is accounted for in the Statement of Financial Performance. The average lease term is 3 years with 0% escalation. The rental is fixed for the duration of the contract.

The Municipality further entered into an operating lease agreement as from 01 July 2017 for a period of 9 years with MZ Hlatshwayo. Leasing a land for the pound and landfill site. The payment is to be made in two equal payments within 2 financial years starting from the 2017/2018 and 2018/2019 financial years. Operating lease payment is accounted for in the Statement of Financial Performance and prepaid expense is accounted for in the Statement of Financial Position. The lease term is 9 years with 0% escalation.

Minimum Lease Due - Photocopier

1 year	2,307,948	-
> 2 years	4,615,895	-
	6,923,843	-

31. Cash generated from operations

Surplus	23,834,275	22,632,119
Adjustments for:		
Depreciation and amortisation	24,661,860	20,330,736
Profit / Loss on sale of assets and liabilities	29,942	1,830,597
Fair value adjustments	(20,000)	-
Finance costs - Finance leases	1,529,200	2,018,488
Impairment deficit	2,626,369	2,432,835
Debt impairment	9,129,105	8,562,109
Movements in retirement benefit assets and liabilities	(551,069)	1,195,239
Movements in provisions	2,600,477	2,487,786
Donation received	(93,660)	(3,970,690)
Donations not capital in nature	-	43,525
Changes in working capital:		
Receivables from exchange transactions	222,330	(1,050,669)
Consumer debtors	(15,089,272)	(10,532,145)
Other receivables from non-exchange transactions	2,100,747	(2,458,823)
Payables from exchange transactions	(543,492)	8,295,397
VAT	183,113	1,488,921
Unspent conditional grants and receipts	18,743,978	641,793
	69,363,903	53,947,218

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32. Commitments		
Authorised capital expenditure		
Approved & contracted for		
• Capital projects already contracted for	31,605,569	32,796,138
Approved but not yet contracted for		
• Capital projects not yet contracted for	12,958,158	28,004,312
Authorised operational expenditure		
Approved & contracted for		
• Operational projects already contracted for	19,782,570	6,561,349
Approved but not yet contracted for		
• Operational projects not yet contracted for	1,126,861	428,353

33. Contingent liabilities

Microvulintuthuko Business Enterprise CC is attempting to claim payments against the municipality in relation to retention funds deducted in the course of the project (Bergville licensing and testing centre) as well as payment for alleged outstanding invoices, since the contract was terminated by the municipality. The municipality disputes this claim. The claim amount is: R 3 120 080 (claim for work done)
R 690 176 (retention)

At this stage it is not probable that the municipality will pay, because the odds of success appear to be even.

A labour court matter where a decision of the CCMA is being taken under review. An ex employee has claimed that his/her dismissal for abscondment/desertion was both substantively and procedurally unfair. The claim amount is R 280 159.

At this stage the Municipality has a fair likelihood of being successful.

Mott McDonald (Pty) LTD is attempting to claim payment against the Municipality in relation to consulting engineer fees. The Municipality disputes this claim. The disputed claim amount is R 1 202 342.

The odds of success at this stage appear to be even.

Contingent assets

No contingent assets exist for the period ended 30 June 2020 (2019: Nil)

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34. Change in Estimate

The Municipality has revised the remaining useful lives and residual values of assets which had reached the end of their useful lives, based on the conditions in terms of GRAP 17 paragraph 56.

The effects of this revision have overall increased the depreciation by R 1 666 848.

The Municipality has revised the debt impairment provision for the significant debt G Meiner Inv Holding from 75% to 85 %. The effects of this revision has an increase in the provision of R 360 936.

The effect on the change in useful lives, change in residual values and provision for debt are as follows:

Depreciation	Depreciation per annum before	Depreciation per annum after	Difference (Change in Future depreciation)
Computer	60,454	30,227	30,227
Office Furniture	75,123	37,562	37,562
Machinery and Equipment	78,308	39,154	39,154
Infrastructure	160,474	80,237	80,237
Motor vehicles	344,212	2,197,123	(1,852,911)
Buildings	115,175	116,291	(1,115)
	833,746	2,500,594	(1,666,846)

Debt impairment provision

	Impairment per annum before	Impairment per annum after	Difference (change in impairment per annum)
G Meiner Inv Holding	2,707,023	3,067,960	360,936

35. Prior period restatements

Before GRAP 109 was effective, the Municipality was expensing the electrification of household in the year the expenditure was incurred and recognised revenue of the INEP grant. The Municipality is an agent to the arrangement between the Municipality and Eskom.

The Municipality manages the construction of powerlines on behalf of Eskom and when the construction is complete Eskom take ownership of the completed project.

The expenditure incurred by the Municipality is limited to INEP allocation made in that specific financial year.

Restatements made in 2017/2018 and prior years

Reversal of conditions met revenue on INEP grant and the related expenditure in the accumulated surplus, raising of the VAT Payable that was previously claimed as VAT input, reversing of VAT input on retention's raised and reversal of retention that was raised after the INEP allocation was fully spent. The accumulated surplus decreased by R 1 361 502, the amount raised as payable for VAT input previously claimed was R 2 873 997, VAT input decreased by R 211 749 and Retention's decreased by R 1 724 244.

Restatements made in 2018/2019

Government Grants were reduced by R 7 984 000 INEP allocation, General Expenses were reduced by reduced by R 7 788 158, the amount raised as payable for VAT input previously claimed increased by R 439 224, Retention's were reduced by R 624 667 and VAT input was reduced by R 381 284.

Interest on outstanding debtors (Services charges and property rentals) amounting to R 522 830 was previously reported as property rates - penalty imposed, this has been reclassified.

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35. Prior period restatements (continued)

Land with the total fair value of R 2 757 000 was in the Valuation Roll that was implemented in on the 1st of July 2017, but this land was not in the Fixed Assets Register. Land was increased by this amount and fair value gain was increased by this amount.

		Previously stated	Reclassification	Restatement	Restated
Statement of Financial Position					
Vat receivables	9	5,829,818	-	(593,033)	5,236,785
Property Plant and equipment	3	386,527,229	-	2,757,000	389,284,229
Payables from exchange transaction	16	(33,203,508)	-	(964,308)	(34,167,816)
Accumulated surplus		372,253,564	-	1,199,655	373,453,219
Interest on outstanding debtors		-	522,830	-	522,830
Government grants		162,365,073	-	(7,984,000)	154,381,073
Property rates - penalties imposed	17	4,708,822	(522,830)	-	4,185,992
General Expenses		(65,443,620)	-	7,788,158	(57,655,462)

36. Related parties

Key Management Personnel and Councillors Remuneration.

Remuneration of Key Management Personnel and Councillors is set out in Note 24 and 25 respectively to the Annual Financial Statements.

37. Risk management

Financial risk management

Due to the largely non-trading nature of the activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities.

The municipality's finance function monitors and manages the financial risks relating to the operations of the municipality. These risks include credit risk, liquidity risk, market risk relating to interest rate risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Other: Lease obligation	4,578,814	4,470,591
Trade and other payables	33,624,328	34,167,820
Maximum liquidity exposure	38,203,142	38,638,411

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37. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2020	2019
Cash and cash equivalents	57,730,330	26,657,949
Trade and other receivables	27,551,279	21,535,662

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Cash and cash equivalent	57,730,330	26,657,949
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Price risk

Due to legislative restrictions, the municipality does not trade these investments.

38. Events after the reporting date

There are no material events that occurred after the reporting date 30 June 2020.

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39. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	838,669	787,409
Interest and penalties	42,754	51,260
Less: Amounts recoverable - prior period	(11,014)	-
Less: Amount written off - current	(42,754)	-
Less: Amount written off - prior period	(51,260)	-
Closing balance	776,395	838,669

An amount of R 776 395 is as a result of misconduct by a former employee during 2014/2015 financial year, a case was opened against the employee for payments made to ghost employees and the case is currently under investigation by the South African Police Services. The matter is currently in criminal court.

Incidents 2018/2019

An amount of R 62 274 for interest and penalties incurred on late payments was referred to MPAC for investigation in terms of section 32 of the MFMA.

Incidents 2019/2020

An amount of R 42 754 for interest and penalties incurred on late payments was referred to MPAC for investigation in terms of section 32 of the MFMA.

40. Irregular expenditure

Reconciliation of Irregular expenditure

Opening balance	31,407,081	13,821,849
Expenditure incurred during the year	23,177,622	31,407,081
Less: Amount written off - by Council	(53,799,191)	(13,821,849)
Closing balance	785,512	31,407,081

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40. Irregular expenditure (continued)

Opening balance

Incident 2018/2019

An amount of R 93 130 has been incurred on medical expenses and examinations, the service provider was identified as a supplier who is the service of the state by the Auditor General during the 2017/2018.

The Municipality extended the contract with the service provider using section 116 of the MFMA, an amount of R 28 839 240 has been incurred as at 30 June 2019. The extension was approved by Council, the public was informed of the extension and the comments of the public were solicited.

An amount of R 300 000 was incurred by the Municipality, the procurement was split into two (R150 000 each) due to projects being different and in different locations.

An amount of R 2 174 711 was incurred by the Municipality on electrification projects, the adjudication committee was not constituted in accordance with the SCM policy due to the position of Director Technical Service being vacant, the matter was submitted to relevant committees for consideration.

Incident 2019/2020.

An amount of R 7 313 382 was incurred by the Municipality on electrification projects, the adjudication committee was not constituted in accordance with the SCM policy due to the position of Director Technical Service being vacant, the matter has been submitted to relevant committees for consideration.

An amount of R 3 629 561 was incurred by the Municipality on Bergville CSC, the Municipality extended a contract using section 116 of the MFMA, the matter has been submitted to relevant committees for consideration.

An amount of R 1 662 535 was incurred by the Municipality on housing projects, the service provider delivered the works not prescribed on the scope of works, the matter has been submitted to relevant committees for consideration.

An amount of R 3 366 178 was incurred by the Municipality on fuel and oil, the contract extensions was not done in compliance with the section 116 of MFMA, the matter has been submitted to relevant committees for consideration.

An amount of R 7 205 966 was incurred by the Municipality on MIG projects, the adjudication committee was not constituted in accordance with the SCM policy, the matter has been submitted to relevant committees for consideration.

An amount of R 785 512 has been written off by council in accordance to section 32 of the MFMA, however the write-off took place after year end.

41. Unauthorised expenditure

Opening balance as restated

Opening balance	-	-
Expenditure incurred during the year	2,442,196	-
Less: Amount written off by Council	2,951,509	2,442,196
	(2,442,196)	-
Closing balance	2,951,509	2,442,196

In 2018/2019 the provision for rehabilitating the landfill site increased and the municipality did not budget for this. The increase in the provision was due to factors outside the municipality's control.

2019/2020 Incidents

The Municipality revised the residual values of motor vehicles in accordance with GRAP 3, this led to additional depreciation in the current year.

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41. Unauthorised expenditure (continued)

The Municipal building was damaged in a hit and run motor accident, this resulted in an impairment loss. The landfill site used by the Municipality has a zero useful life, this was the indication for impairment and an impairment loss was recognised.

An amount of R 2 951 509 has been written off by council in accordance to section 32 of the MFMA, however the write-off took place after year end.

42. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year subscription / fee	2,619,669	1,929,054
Amount paid - current year	(2,619,669)	(1,929,054)
	-	-

PAYE, SDL and UIF

Opening balance	-	-
Current year subscription / fee	13,463,040	12,296,706
Amount paid - current year	(13,463,040)	(12,296,706)
	-	-

Pension and Medical Aid Deductions

Opening balance	-	-
Current year subscription / fee	15,932,887	14,278,427
Amount paid - current year	(15,932,887)	(14,278,427)
	-	-

VAT

VAT receivable	5,053,671	5,236,784
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VAT output payables and VAT input receivables are shown in note 9.

All VAT returns have been submitted by the due date to SARS throughout the year.

Councillors' arrear consumer accounts

For the financial period ended 30 June 2020, there were no rates or services arrears owed by any councillor. Further, during the financial year there are no councillors which were outstanding for more than 90 days.

Supply chain management regulations

Quotations: In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. These deviations refer to the instances as stipulated in the regulations and relates mainly to emergencies and instances where it was impractical to follow SCM processes.

Incident

Quotations	510,619	1,328,680
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